

**REPORT OF THE AUDIT OF THE
INTERIM MCCREARY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
January 1, 2007 Through February 19, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE INTERIM MCCREARY COUNTY SHERIFF'S SETTLEMENT - 2006 TAXES

**For The Period
January 1, 2007 Through February 19, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for the interim McCreary County Sheriff for the period January 1, 2007 through February 19, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The interim Sheriff collected taxes of \$332,407 for the districts for 2006 taxes, retaining commissions of \$10,969 to operate the Sheriff's office. The interim Sheriff distributed taxes of \$321,654 to the districts for 2006 Taxes. Refunds of \$216 are due to the interim Sheriff from the taxing districts.

Report Comment:

- The Interim Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The interim Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2006 TAXES	3
NOTES TO FINANCIAL STATEMENT	4
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	9
COMMENT AND RECOMMENDATION.....	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Blaine Phillips, McCreary County Judge/Executive

Honorable Randy Waters, Interim McCreary County Sheriff

Honorable Gus Skinner, McCreary County Sheriff

Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the interim McCreary County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through February 19, 2007. This tax settlement is the responsibility of the interim McCreary County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the interim McCreary County Sheriff's taxes charged, credited, and paid for the period January 1, 2007 through February 19, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated May 28, 2008 on our consideration of the interim Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Blaine Phillips, McCreary County Judge/Executive

Honorable Randy Waters, Interim McCreary County Sheriff

Honorable Gus Skinner, McCreary County Sheriff

Members of the McCreary County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Interim Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

May 28, 2008

MCCREARY COUNTY
RANDY WATERS, INTERIM SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period January 1, 2007 Through February 19, 2007

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Transferred From Outgoing Sheriff:				
Real Estate	\$ 77,527	\$ 165,969	\$ 301,581	\$ 99,317
Tangible Personal Property	13,367	15,428	26,078	8,747
Fire Protection	112			
Franchise Taxes	3,590	4,203	7,151	
Additional Billings	384	473	749	332
Oil and Gas Property Taxes	385	439	1,498	493
Penalties	1,492	3,145	5,738	1,927
Adjusted to Sheriff's Receipt		86		
Gross Chargeable to Sheriff	96,857	189,743	342,795	110,816
<u>Credits</u>				
Exonerations	320	655	1,244	409
Discounts	4	5	15	5
Delinquent Franchise Taxes	7	7	12	
Transferred to New Sheriff:				
Official Receipt For Unpaid Tax Bills	49,350	103,097	187,829	63,475
Official Receipt for Unpaid Oil Bills	187	214	729	240
Total Credits	49,868	103,978	189,829	64,129
Taxes Collected	46,989	85,765	152,966	46,687
Less: Commissions *	1,997	2,399	4,589	1,984
Taxes Due	44,992	83,366	148,377	44,703
Taxes Paid	44,992	83,368	148,591	44,703
Refunds Due Sheriff		**		
as of Completion of Audit	\$ 0	\$ (2)	\$ (214)	\$ 0

* Commissions:

4.25% on	\$	141,116
3% on	\$	152,966
1% on	\$	38,325

** Special Taxing Districts:

Soil Conservation District (2)

Refund Due Sheriff (2)

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT

February 19, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The interim Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENT
February 19, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The interim Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of February 19, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 16, 2007 through February 19, 2007.

Note 4. Interest Income

The interim McCreary County Sheriff earned \$41 as interest income on 2006 taxes. The interim Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The interim McCreary County Sheriff collected \$1,063 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
Honorable Randy Waters, Interim McCreary County Sheriff
Honorable Gus Skinner, McCreary County Sheriff
Members of the McCreary County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the interim McCreary County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through February 19, 2007, and have issued our report thereon dated May 28, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the interim McCreary County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the interim McCreary County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the interim McCreary County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Interim Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the interim McCreary County Sheriff's Settlement – 2006 Taxes for the period January 1, 2007 through February 19, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

May 28, 2008

COMMENT AND RECOMMENDATION

MCCREARY COUNTY
RANDY WATERS, INTERIM SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 2007 Through February 19, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Interim Sheriff's Office Lacked Adequate Segregation Of Duties

The interim Sheriff's office lacked an adequate segregation of duties over tax receipts and disbursements. The interim Sheriff's bookkeeper collected payments from customers, prepared and made the deposits, and prepared the daily tax collection journal. The interim Sheriff's bookkeeper also prepared the monthly tax reports, prepared and mailed the checks to the taxing districts, and prepared monthly bank reconciliations.

Adequate segregation of duties would have prevented the same person from having a significant role in the processing, recording, and reporting of tax receipts and disbursements. The interim Sheriff should have segregated their duties or implemented compensating controls to offset this lack of segregation of duties and documented those compensating controls by initialing reviews.

Sheriff's Response: None.

